

2015-2020 Financial Forecast Development Services Fund

Executive Summary:

- *The Development Services Fund supports delivery of development review, inspections, land use, and code enforcement services.*
- *The Development Services Fund 2015-2020 early forecast reflects an increase in development in the early years and decreasing by 2018. In response to the immediate workload for development activity, Development Services added 24 FTE positions in 2014 and up to an additional 16 through 2016 as workload demands.*
- *In early years, the forecast anticipates growth in development fees and associated cost levels.*

Background

Development in Bellevue has experienced a strong rebound from the recent economic downturn with high interest in major projects. Several new major projects are in construction or have permits approved to begin construction, of exceptional note are the new Lincoln Square II Expansion project and the Spring District. The Sound Transit Eastlink light rail project is also underway and is anticipated to spur long-term commercial and residential development in the city.

The construction valuation for issued permits, considered a key barometer of development activity, is projected to be at a record high level for Bellevue in 2014 and 2015. This is due primarily to the increase in the number of new major projects, single family residences, single family alterations, and tenant improvements. Valuation from major projects is a category that is a significant driver of the forecast in the early years, however, is anticipated to return to more average levels in the later years.

The timing of the construction of these projects will play a role in the level of Development Services staff required to support major project activity. Staffing levels for review, inspection, and support services were increased in 2014 to meet the growing demand for permit review and inspection services. Up to an additional 16 FTEs are included in the 2015-2016 budget to meet the anticipated development review and inspection demand.

2015-2020 Outlook

Office vacancy rates in the central business district are a key indicator of the interest in development activity. After reaching a peak vacancy rate of 16.5% in 2010, vacancy rates declined to 10.2% by mid 2014. As such, growth in major project activity is anticipated in the early years of the forecast. Design review applications (an early indicator of development activity) received since 2013 indicate strong interest and demand for major projects.

Single family development has increased significantly in recent years, and the current level of single family applications is at levels not seen since before the economic downturn. Single family applications are on track for sustained activity in the early forecast period. Tenant improvements remain a strong category of permit activity, not only in the number of applications but in the

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valuation of such applications. The level of activity has steadily increased and is expected to continue in the early years of the forecast and decrease somewhat by the end of the forecast period.

As a result of the aforementioned variables, the early forecast years reflect growth in revenue collections in 2015 due to high interest in the development of major projects and in the latter years of the forecast period, return to average activity levels.

Development Services Fund 2015-2020 Financial Forecast (in \$000)

| | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|------------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| | Budget | Budget | Forecast | Forecast | Forecast | Forecast |
| Beginning Reserve | \$11,798 | \$10,669 | \$9,609 | \$8,278 | \$7,538 | \$7,010 |
| Resources: | | | | | | |
| Building Fees | \$10,105 | \$9,814 | \$9,347 | \$8,901 | \$8,559 | \$8,152 |
| Land Use Fees | \$1,715 | \$1,737 | \$1,638 | \$1,560 | \$1,500 | \$1,457 |
| Fire, Transp. & Utilities Fees | \$5,247 | \$6,154 | \$5,800 | \$5,524 | \$5,311 | \$5,156 |
| sub: Development Services Fees | \$17,067 | \$17,704 | \$16,785 | \$15,985 | \$15,370 | \$14,765 |
| Gen Fund Subsidy | \$3,925 | \$3,992 | \$3,802 | \$3,673 | \$3,532 | \$3,446 |
| Other Revenue/Interest | \$231 | \$237 | \$197 | \$179 | \$171 | \$164 |
| Total Resources | \$21,223 | \$21,933 | \$20,784 | \$19,838 | \$19,073 | \$18,375 |
| Expenditures: | | | | | | |
| Building | \$9,176 | \$9,601 | \$9,321 | \$8,474 | \$7,994 | \$7,761 |
| Land Use | \$3,325 | \$3,392 | \$3,231 | \$3,019 | \$2,848 | \$2,793 |
| Fire, Transp. & Utilities Dev Svcs | \$4,342 | \$4,868 | \$4,550 | \$4,136 | \$3,902 | \$3,647 |
| Code Compliance | \$960 | \$993 | \$1,003 | \$1,013 | \$993 | \$979 |
| Administrative/Shared Costs | \$3,956 | \$4,062 | \$3,832 | \$3,757 | \$3,683 | \$3,647 |
| Technology Initiatives | \$592 | \$77 | \$178 | \$179 | \$180 | \$181 |
| Total Expenditures | \$22,352 | \$22,993 | \$22,114 | \$20,579 | \$19,601 | \$19,007 |
| Ending Reserves | \$10,669 | \$9,609 | \$8,278 | \$7,538 | \$7,010 | \$6,377 |

Forecast Drivers and Assumptions

1. Several major mixed use development projects (Bellevue Office Tower, Main Street Gateway, GRE-Bellevue and Bellevue at Main) are assumed to be in construction in the early years of the forecast. Additional major projects are the Soma Towers, Pacific Regent Phase II, PF Master Development, The Bellevue Expansion, Washington Square Hilton Gardens,

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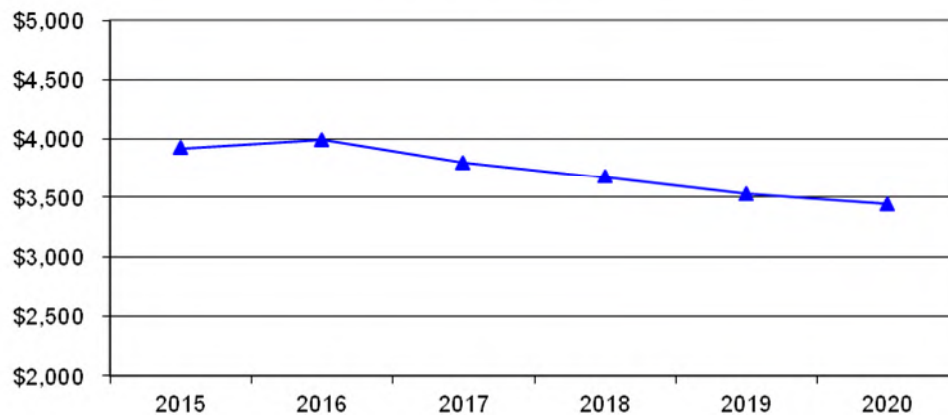
Rockefeller Bellevue Tower, 415 Office Building, Bellevue Hotel, Bellevue Center, Odle Middle School and Enatai Elementary.

2. The demand for major project activity continues to increase as several new projects are in the review process and are assumed to continue through the early forecast years. Interest in new single family homes and existing remodels also continues to grow. In later forecast years, demand and interest is anticipated to slow.
3. The forecast reflects an increase of up to 16 positions (including 6 FTEs in Fire, Transportation and Utilities Departments). Consistent with the long-range financial planning effort, changes in resource levels are continually assessed and modified to accommodate the workload and maintain service levels. Additional workload for the Sound Transit Eastlink light rail project is anticipated through 2017 and staffing levels will be adjusted to meet the review and inspection demands.
4. Development rates are reviewed annually and may be adjusted to assure they are set accordingly to meet cost recovery objectives endorsed by Council. This forecast assumes that rates will grow at an average rate of inflation.

General Fund Subsidy

The General Fund contribution to the Development Services Fund accounts for approximately 2% of the General Fund budget. This contribution (subsidy) supports personnel and M&O costs for programs that have been designated as general funded activities. These programs include Code Compliance and a portion of Land Use. Development Services activities supported by the General Fund include public information, policy development, and approximately 50% of Land Use discretionary review.

General Fund Subsidy Forecast 2015-2020
(\$ in Thousands)



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The General Fund contribution to the Development Services Fund is anticipated to grow slightly in the early forecast period, and decline in later years, consistent with projections for cost savings due to a decline in development activity.

Development Services Fund Reserves

The Development Services Fund maintains reserves to assure that core staffing levels are balanced with cyclical needs, thus mitigating the effects of downturns or rapid increases in development activity. Reserves also ensure the Development Services Center, capital equipment, and technology systems are adequately funded when they need replacement or renovation.

Development Services Fund reserves are anticipated to be approximately \$10.7 million through 2015. This reflects the most recent rapid development growth in Bellevue. As development activity slows, reserve levels are assumed to decline through 2020. Reserves will be drawn upon as it will be necessary to maintain sufficient staff to complete the review and inspection of projects in construction.

Development activity and reserve levels will be closely monitored over the next biennium. Corrective measures will be taken during the forecast period if market conditions warrant doing so.

Development Services Reserves Forecast 2015-2020
(\$ in Thousands)

